Tennessee Transportation Funding: Challenges and Options



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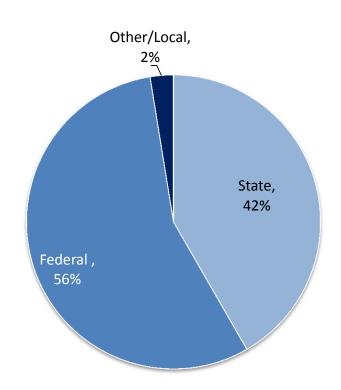
To view the full report and presentation online, go to: http://www.comptroller.tn.gov/OREA/

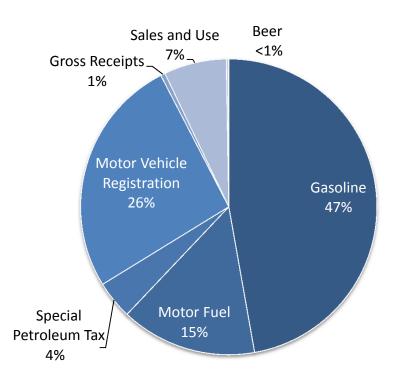


Scope

- Does not include recommendations
 - Resource document with objective analysis
 - Presents strengths and concerns for different options
- Does not address
 - Level of funding needed
 - How funds are or should be spent
 - Transportation modes other than highways

Background – State Road Funding





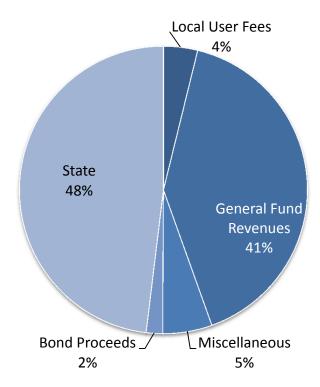
Total Revenue = \$1.83 billion

State Revenue = \$788 million

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FY2014

Local Funding



Total Revenue = \$605.3 million 2012



Comparison to Other states

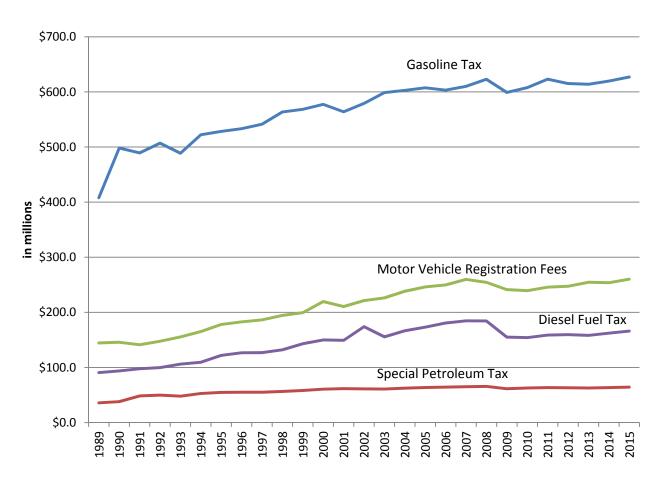
- ◆ Tennessee revenue per capita to highways in 2010 (\$325.71) lowest in U.S. (Average = \$620.59)
- Tennessee relies more heavily on highway user taxes than other states
- Tennessee does not use debt financing, tolls, or general fund revenues for highways
- Tennessee roads generally rated as being of good quality

Challenges

- Transportation revenues in Tennessee are not expected to be sufficient to maintain existing highways and meet long-term transportation demand
- User fee revenues have stagnated and are not expected to increase without changes

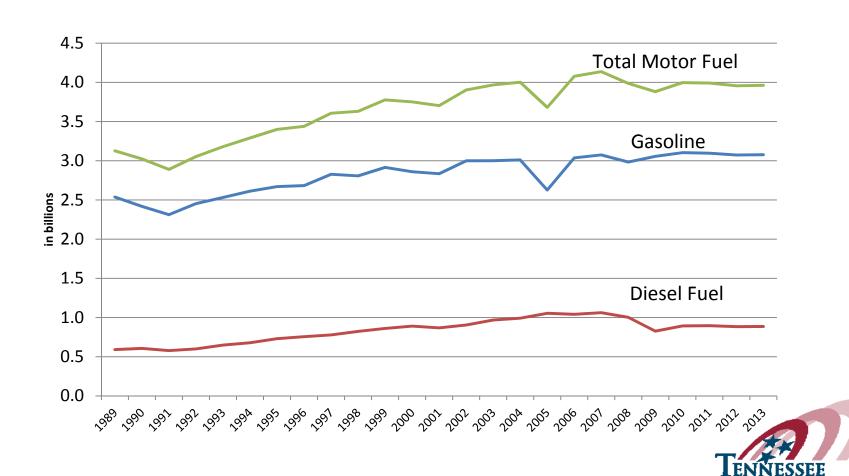


Tennessee Highway User Tax Revenues, 1989-2015



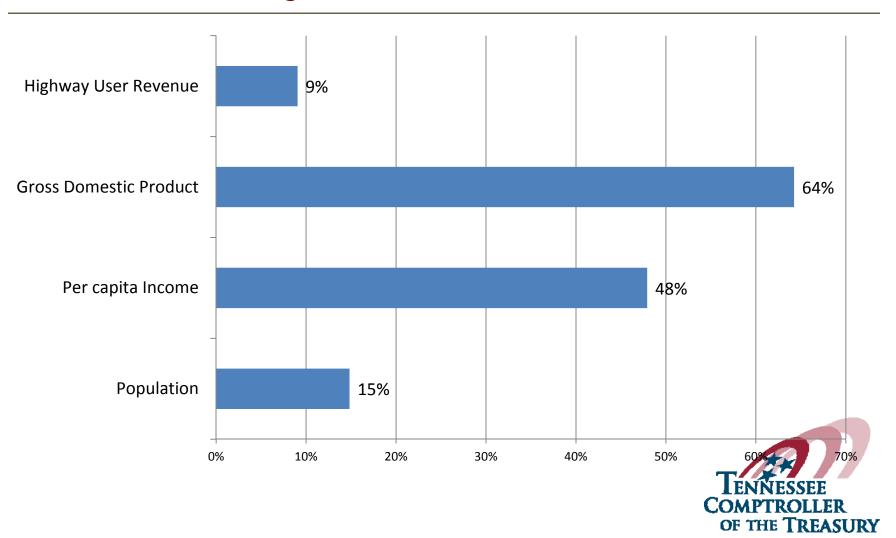


Tennessee Taxable Fuel Consumption, in gallons, 1989 through 2013

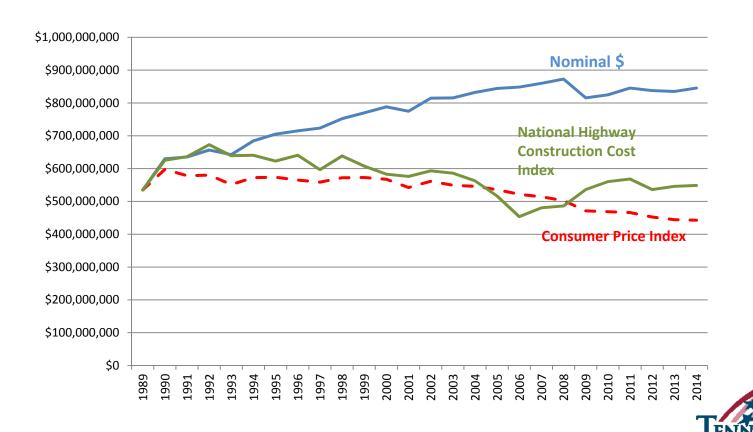


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Percent Change Tennessee Highway-User Revenue Compared to Population and Economic Growth, 2000 through 2014

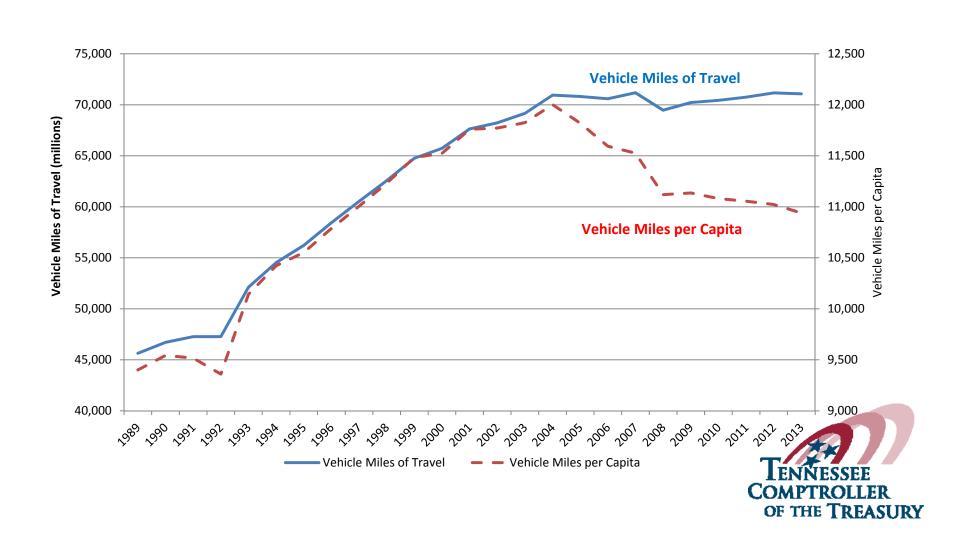


Tennessee Fuel Tax Revenue, Nominal and Inflation-adjusted Dollars, 1989 through 2014

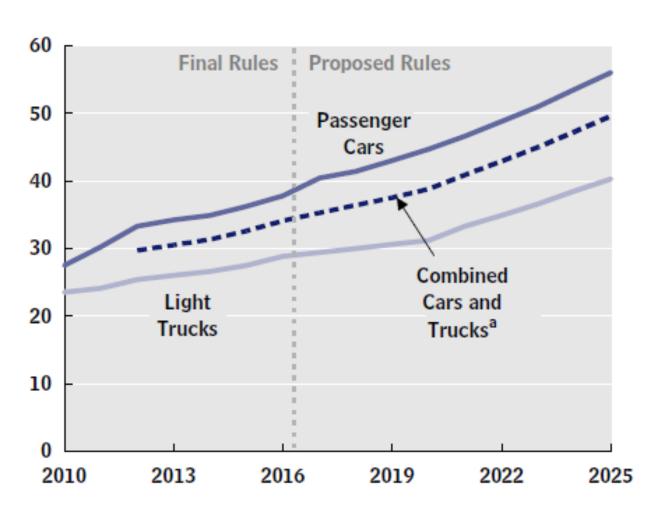


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Tennessee Vehicle Miles of Travel, 1989-2013



Estimated Average Fuel Economy of Light-Duty Vehicles under CAFE Standards, 2010 to 2025





Uncertainty of Federal Funding

- Shortfalls in federal HTF in recent years funded with General Funds
- No long-term solutions passed by Congress to address shortfalls in Highway Trust Fund



Local Government Highway Funding

- Face same challenges as state with stagnating revenue and increasing costs
- Local governments rely heavily on state-shared fuel taxes
- Locals also use other local revenues for highways and some borrow funds to varying degrees



Possible Revenue Options

- Current Tennessee highway taxes and fees
 - Increase fuel tax rates
 - Index fuel tax rates to inflation or price or fuel efficiency standards
 - Increase motor vehicle registration fees
 - Add a use tax for alternative fuel or high-mileage vehicles that pay little or no fuel taxes that support the up keep of roads



Options – cont.

- Used by other states
 - Apply sales tax to fuel purchases
 - Transfer General Fund revenue to highways
 - Use debt financing
 - General Obligation bonds
 - Public-private partnerships
 - Add weight distance taxes
 - Local Option highway taxes



Options – cont.

- Addressing structural issues with current taxes
 - Use of tolls
 - Mileage-based tax systems



Motor Fuel Taxes

- Strengths
 - "User pays" tax
 - Dedicated taxes are stable source of revenue
 - Low administrative costs
 - Out of state motorists pay
 - A small change produces substantial revenue at a small cost to users
 - Supports local roads under current distribution formulas

Motor Fuel Taxes

- Concerns
 - Variation in fuel efficiency so taxes not tied as closely to road use
 - Unless increased on regular basis do not grow with economy
 - Not directly tied to pavement damage of vehicles

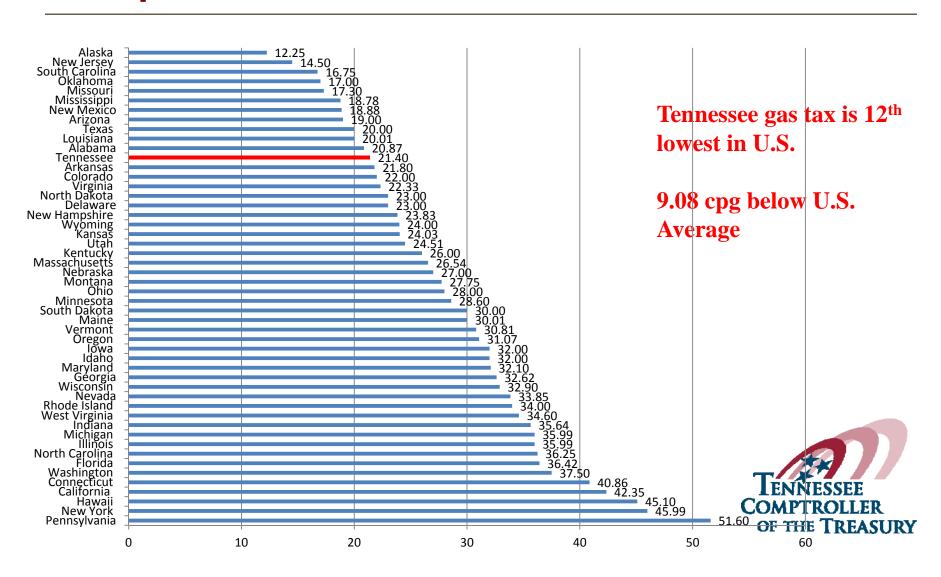


Other Considerations

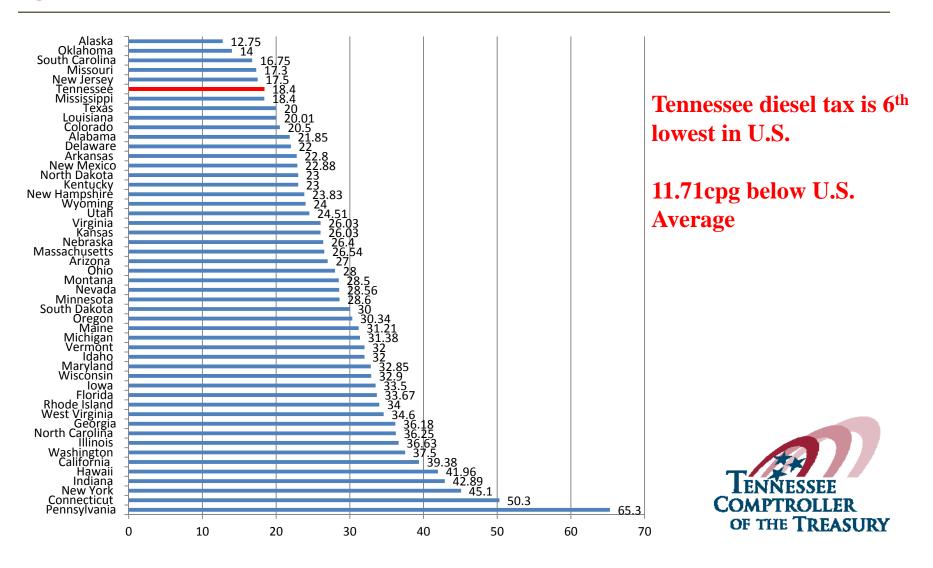
- Tennessee gas tax last raised in 1989
 TN gas tax 21.4 cents per gallon
- ◆ Tennessee diesel tax last raised in 1990 TN diesel tax 18.4 cents per gallon



Tennessee Gas Tax Rates (cents per gallon) Compared to Other States, 2015



Tennessee Diesel Tax Rates (cents per gallon) Compared to Other States, 2015



Annual Gas Tax Paid – Common Passenger Vehicle

- Assumptions: 15,000 miles driven per year/
 20 miles per gallon = 750 gallons of gas
- State Gas Tax
 - 750 gallons X 21.4 cents per gallon = \$160.501.1 cent per mile
- Federal Gas Tax
 - 750 gallons X 18.4 cents per gallon = **\$138.00**

1 cent per mile

- **♦** Total State and Federal Gas Tax = \$298.50
- One cent increase = \$7.50 per year



Revenue projections

- Gas Tax
 - 1 cent increase = \$30.9 million (+ 5%)

State Highway Fund (60%) \$18.54 m

Local Highways (38%) \$11.74 m

General Fund (2%) \$ 0.62 m



Revenue projection

- Diesel Tax
 - 1 cent increase = \$ 9.6 million (+ 6%)

State Highway Fund (60%) \$ 6.91 m

Local Highways (38%) \$ 2.5 m

General Fund (2%) \$ 0.19 m



Variable Rate or Indexed Fuel Taxes

- Strengths
 - Allows fuel taxes to better adjust to changes in the economy and purchasing power over time
 - "User pays" tax
 - Retains lower administrative costs if tied to current taxes
 - Requires less frequent legislative action to change the rates

Variable Rate or Indexed Fuel Taxes

- Concerns:
 - Volatility of index measures
 - Can include floors, ceilings, and change limitation to reduce volatility
 - Limits public debate on changes
 - What index to use to best reflect highway costs
 - Still tied to fuel consumption



Variable Rate options

- Indexed to CPI from 1989
 - \blacksquare Gas tax = 20 to 38 cpg (\$556.2m FY15)
 - Diesel tax = 17 to 30 cpg (\$124.8m FY15)
- Index to Wholesale or Retail Price of Fuel



Variable Rate options

- Add current sales tax rates (9.5% average) to fuel
 - State \$1 billion (+186 %)Local \$368 million (+127%)
- Add 1% sales tax to fuel
 - \$147.1 million (+17.5%)
- Based on average fuel prices of \$3.453 per gallon for gasoline and \$3.77 for diesel fuel; sales tax revenue would fluctuate with the price of fuel.

Vehicle Miles Traveled Tax

- Strengths
 - Enhances the "user pays" principle tax based on miles driven, not fuel used
 - Can use to address other policy goals such as reducing traffic congestion and vehicle pavement damage
 - More feasible administratively with new technology



Vehicle Miles Traveled Tax

- Concerns
 - Public acceptance low
 - Concerns with privacy protection
 - Increased administrative costs
 - How to account for non-resident driving



Debt Financing

 Requires a commitment of dedicated recurring funds to repay any debt issued



Questions or comments?

